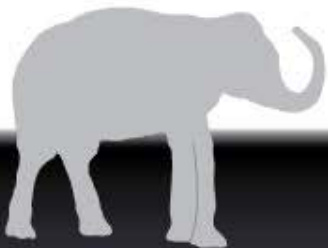# GAAP, Regulatory and IFRS: How Secondary Ledgers Solve Financial Reporting Compliance Headaches

Brian Lewis, CPA
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blewis@eprentise.com
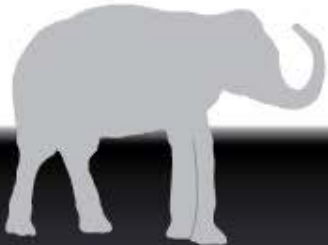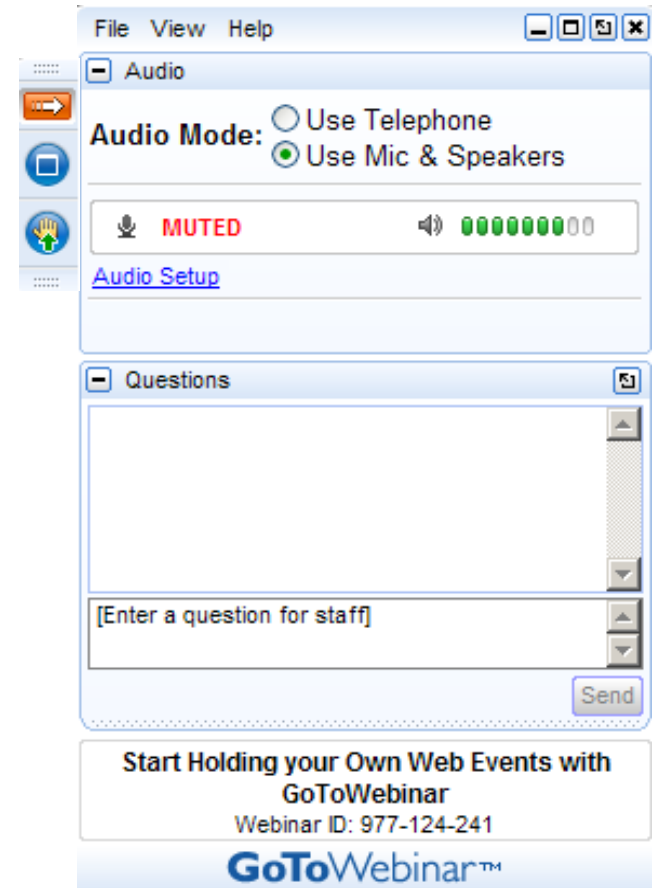
Accelerating the time for change in Oracle E-Business Suite

Webinar Mechanics

- Open and close your panel.

- View, select, and test your audio.

- Submit text questions.

- Raise your hand.

- Q&A addressed at the end of the session. Answers will be posted within two weeks on our new LinkedIn Group, EBS Answers: http://www.linkedin.com/groups/EBS-Answers-4683349/about

- Everyone will receive an email within 24 hours with a link to view a recorded version of today's session.

- Polling questions will be presented during the session. If you want CPE credit for this webinar, you must answer all of the polling questions.
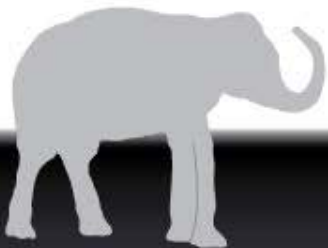
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Learning Objectives

After this session you will be able to:

🐘 **Objective 1:** Demonstrate the basic mechanics of using secondary ledgers.

🐘 **Objective 2:** Explain the uses of the four types of secondary ledgers for addressing GAAP, IFRS and regulatory reporting requirements

🐘 **Objective 3:** Calculate the cost savings from using secondary ledgers to replace reporting spreadsheets.

Agenda

- Introduction
- The Problem
  - GAAP, IFRS and Regulatory Reporting
- A Better Solution
  - Secondary Ledgers
- The Mechanics of Setting Up a Secondary Ledger
- Overview of Secondary Ledgers and their Use for GAAP, IFRS and Regulatory Reporting
- Cost Savings from Using Secondary Ledgers as an Alternative for GAAP, IFRS and Regulatory Compliance Reporting
- Questions
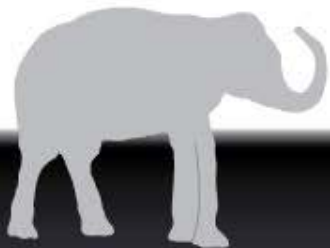
Introduction: Finished but not Done

eprentise®: Transformation Software for E-Business Suite

Company Overview: Established 2006   ●   Helene Abrams, CEO

eprentise Can...

- Consolidate Multiple EBS Instances
- Change Underlying Structures and Configurations
  - Chart of Accounts, Other Flexfields
  - Inventory Organizations
  - Operating Groups, Legal Entities, Ledgers
  - Calendars
  - Costing Methods
- Resolve Duplicates, Change Sequences, IDs
- Separate Data

...So Our Customers Can:

- Reduce Operating Costs and Increase Efficiencies
  - Shared Services
  - Data Centers
- Adapt to Change
  - Align with New Business Initiatives
  - Mergers, Acquisitions, Divestitures
  - Pattern-Based Strategies
    - Make ERP an Adaptive Technology
- Avoid a Reimplementation
- Reduce Complexity and Control Risk
- Improve Business Continuity, Service Quality and Compliance
- Establish Data Quality Standards and a Single Source of Truth
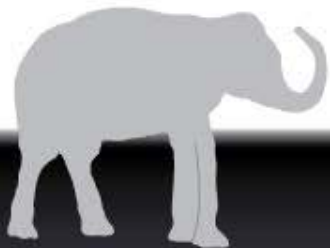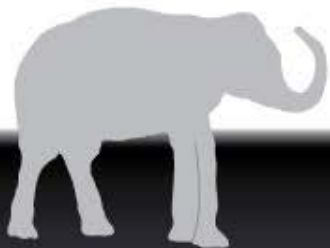
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The Problem: GAAP, IFRS and Regulatory Reporting

Prior to R12, there were limited solutions for reporting on a different accounting basis than that of the primary set of books:

- GL Consolidation
- Outside Reporting Tools
- External Spreadsheets

Just How Complex Can the Spreadsheet Approach Get?
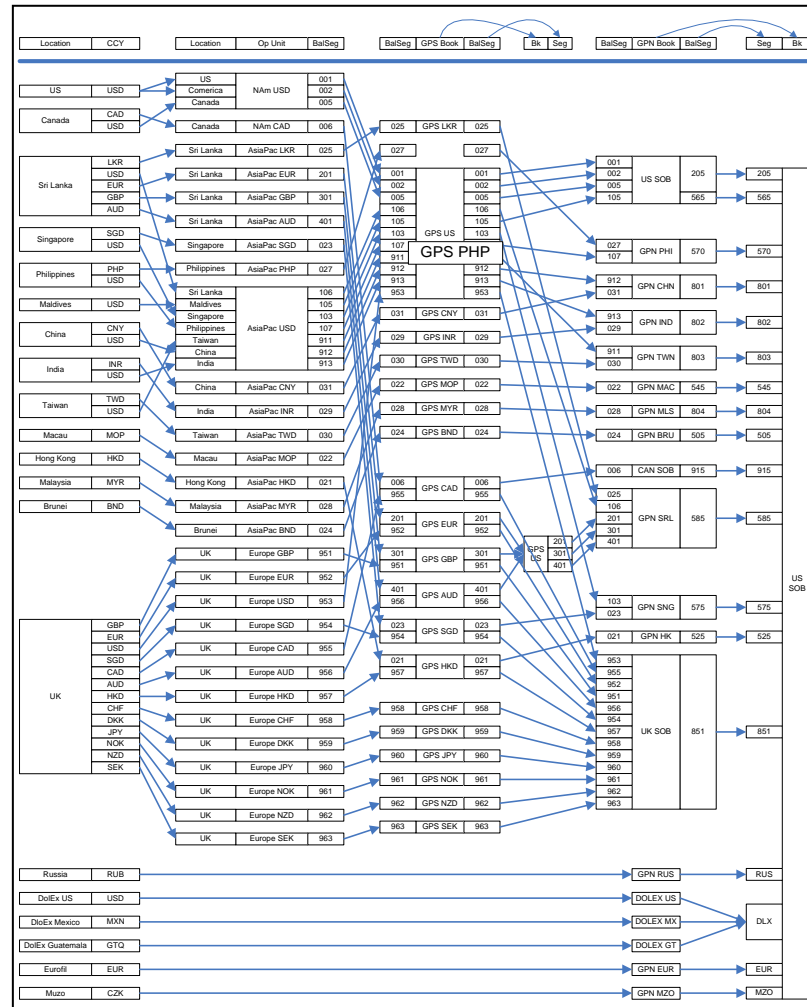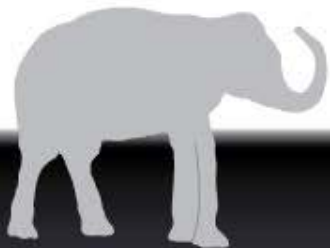
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A Better Solution - Secondary Ledgers

Simply put, as stated in the Oracle Financials Implementation Guide:

"Secondary ledgers represent the primary ledger's accounting data in another accounting representation."
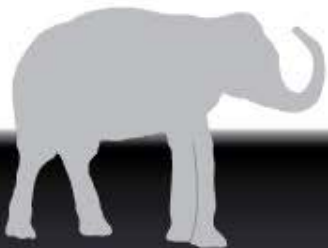
Ways Secondary Ledgers Can Differ from Primary Ledgers

These accounting representations can differ from the primary ledger in the following ways:

1. Chart of Accounts

2. Accounting Calendar/Period Type Combination

3. Currency

4. Subledger Accounting Method

5. Ledger Processing Options

Divergent Basis Reporting Needs

- **IFRS – GAAP Differences**

  - US GAAP and IFRS may require that balances and/or transactions be treated differently in many instances.

- **GAAP – Regulatory Differences**

  - Example - FERC/GAAP: The Federal Energy Regulatory Commission (FERC) requires that periodic balances and transactions be reported on a very different basis than GAAP.
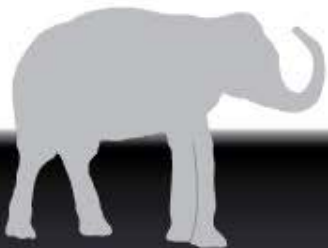
Objective 1:

Demonstrate the basic mechanics of using secondary ledgers

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The Mechanics of Setting Up a Secondary Ledger

1. Define your primary ledger and its related secondary ledgers.

   The secondary ledger may have a different currency, chart of accounts, calendar, or accounting method.

The Mechanics of Setting Up a Secondary Ledger

1.   Define your primary ledger and its related secondary ledgers.

- *Specify the ledger attributes for the primary ledger*
- *Assign one or more secondary ledgers to each primary ledger for an accounting setup*
- *Specify the ledger attributes for one or more secondary ledgers (optional)*
- *Assign on or more reporting currencies (optional)*
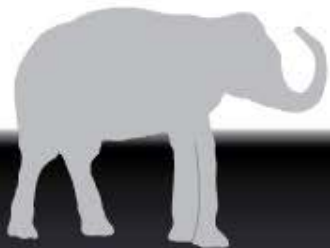
The Mechanics of Setting Up a Secondary Ledger

1. Define your primary ledger and its related secondary ledgers.

2. Define Create Accounting Rules to map the transactions that post to your primary ledger to transactions in your secondary ledgers.

> *The secondary ledgers assigned can only perform the accounting for the legal entities within the same accounting setup.*

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Note:

If an additional ledger is needed to perform accounting across legal entities or ledgers in different account setups, use a ledger in an accounting setup with **no** legal entity assigned. This can be used for multiple purposes, such as performing management reporting or consolidation across multiple legal entities.

ledger with the same accounting setup rules from the primary ledger to the secondary ledgers.

The Mechanics of Setting Up a Secondary Ledger

1. Define your primary ledger and its related secondary ledgers.

2. Define Create Accounting Rules to map the transactions that post to your primary ledger to transactions in your secondary ledgers.
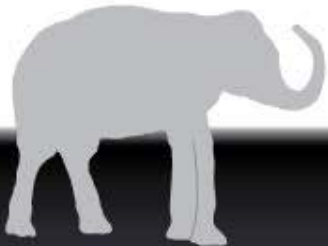
3. When accounting is created, the journal entries are automatically generated for all the associated secondary ledgers based on the defined mapping rules from the primary ledger to the secondary ledgers.

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The Mechanics of Setting Up a Secondary Ledger

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Objective 2:

Explain the uses of the four types of secondary ledgers for addressing GAAP, IFRS and Regulatory Reporting Requirements.

Secondary Ledgers Can Be Maintained at One of Four Different Levels of Detail

- Balance Level

- Journal Level

- Subledger Level

- Adjustments Only Level
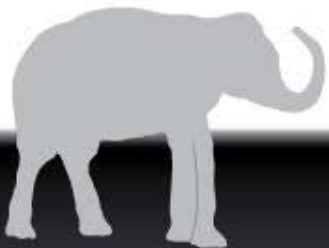
Balance Level Secondary Ledger
IFRS/GAAP Example

🐘 Balance Level Secondary Ledger

- Account balances only in another accounting representation.

  - No drill-down to journal entries or subledgers

- Balances exist at <u>reporting period</u> dates only.

- Populating the balances requires the use of Oracle General Ledger Consolidation.
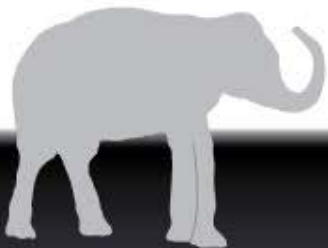
Example: US GAAP and IFRS Income Statement Account Balances

US GAAP	IFRS	
	Continuing Operations	
Net Sales	Revenue	
Sales		
Less: Sales returns and allowances		
Cost of Goods Sold	Cost of sales	
Gross Profit	Gross Profit	
Selling, General and Administrative Expenses	Other income	
Salaries	Distributional expenses	
Advertising expenses	Administrative expenses	
Taxes and insurance	Research and development expenses	
Depreciation and amortization expense	Other expenses	
Bad debts expense	Results from operating activities	
Other selling, general and administrative expenses		
Operating Income (Loss)		

Balance Level Secondary Ledgers

Primary Ledger (US GAAP)

Secondary Ledger balances populated via Oracle General Ledger Consolidation are based on accounting rules.
NO JOURNAL ENTRY LEVEL DRILL DOWN.

Secondary Ledger (IFRS)

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Journal Level Secondary Ledger

🐘 Balance Level Secondary Ledger

🐘 Journal Level Secondary Ledger
   (affected through General Ledger Posting)

   ▪ Account Balances, *and*

   ▪ Journal Entries
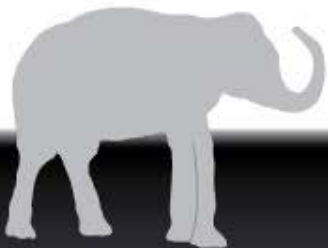
Journal Level Secondary Ledger
Regulatory FERC Example

Operating Revenue Chart of Accounts

1. SALES OF ELECTRICITY

440 Residential sales.

442 Commercial and industrial sales.

444 Public street and highway lighting.

445 Other sales to public authorities (Major only).

446 Sales to railroads and railways (Major only).

447 Sales for resale.

448 Interdepartmental sales.

449 Other sales (Nonmajor only).

449.1 Provision for rate refunds.

Interdepartmental sales are eliminated for GAAP reporting but must be included in many instances for FERC reporting.

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Journal Level Secondary Ledger

Primary Ledger (US GAAP)

Primary Ledger Adjustment (US GAAP)

Secondary Ledger Adjustment (FERC)

Secondary Ledger (FERC)

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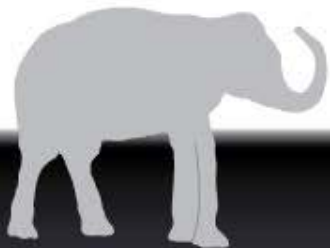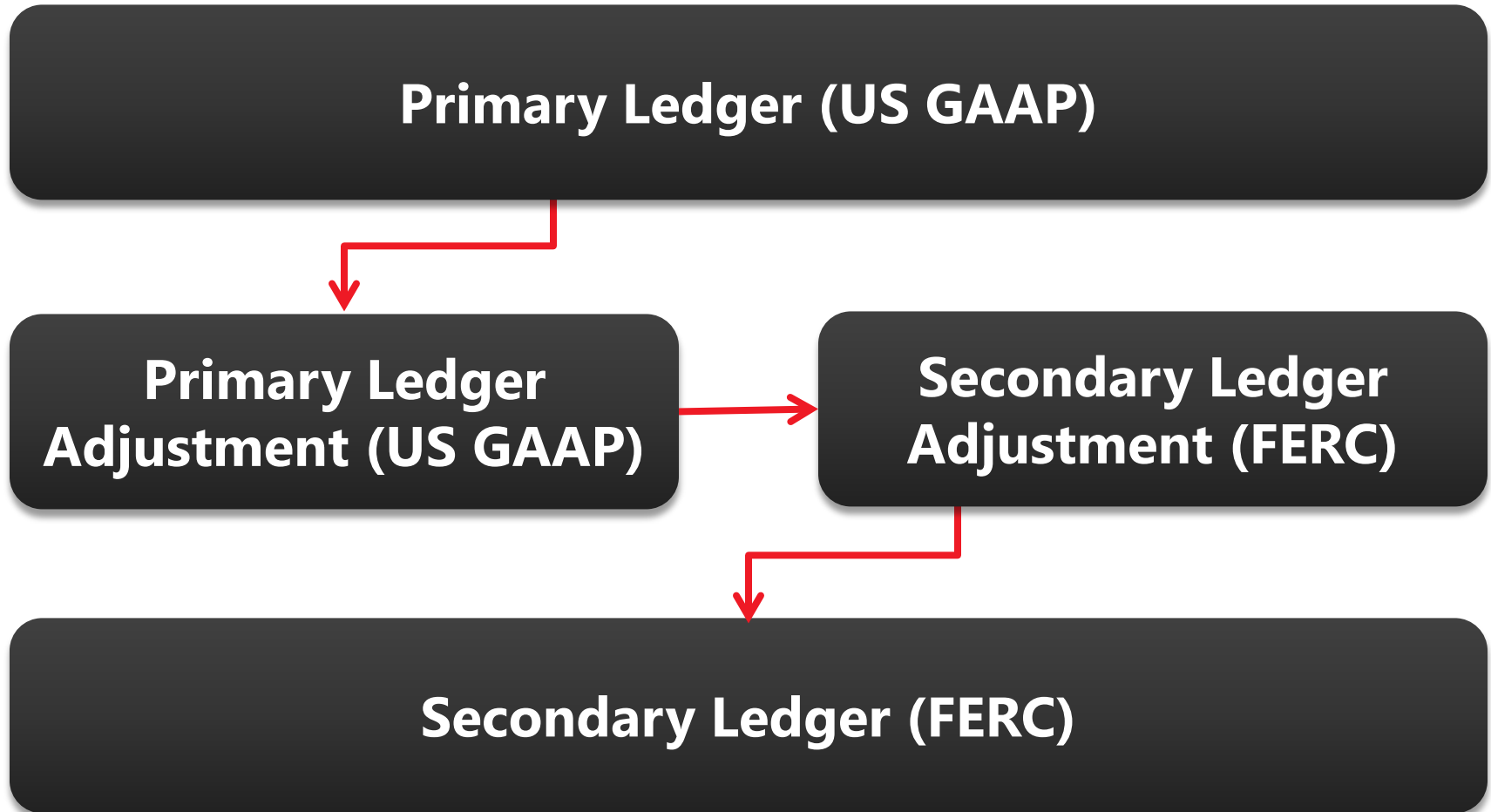
Journal Level Secondary Ledger

This is affected through the use of the General Ledger Posting program, which will duplicate the posting in the secondary ledger but in a different accounting representation each time you post to the primary ledger.
DRILL DOWN TO JE LEVEL TRANPARENCY.

Secondary Ledgers – Subledger Level

🐘 Balance Level Secondary Ledger

🐘 Journal Level Secondary Ledger

🐘 Subledger Level Secondary Ledger

- Balance Level

- Journal Entry Level

- Subledger Level

Secondary Ledgers – Subledger Level

Prior to R12, there were limited options for companies requiring different regulatory chart of accounts. You could have created a GL Consolidation that allowed you to map to a different chart of accounts, but the GL financial consolidation would not have included the transaction detail of the subledgers, so reconciliation was a time-consuming process.
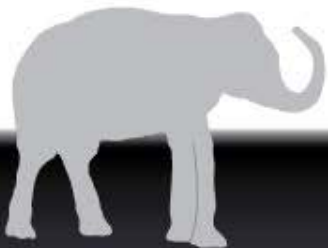
Secondary Ledgers – Subledger Level

General Ledger

Primary Ledger

Secondary Ledgers

Accounting

Subledger Accounting (SLA)

Subledger Accounting

Subledgers

Drilldown to Subledger Accounting Details

Drilldown to Transaction Details
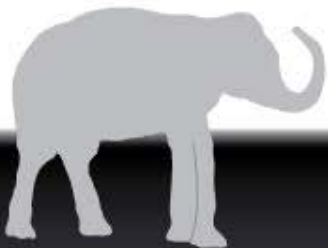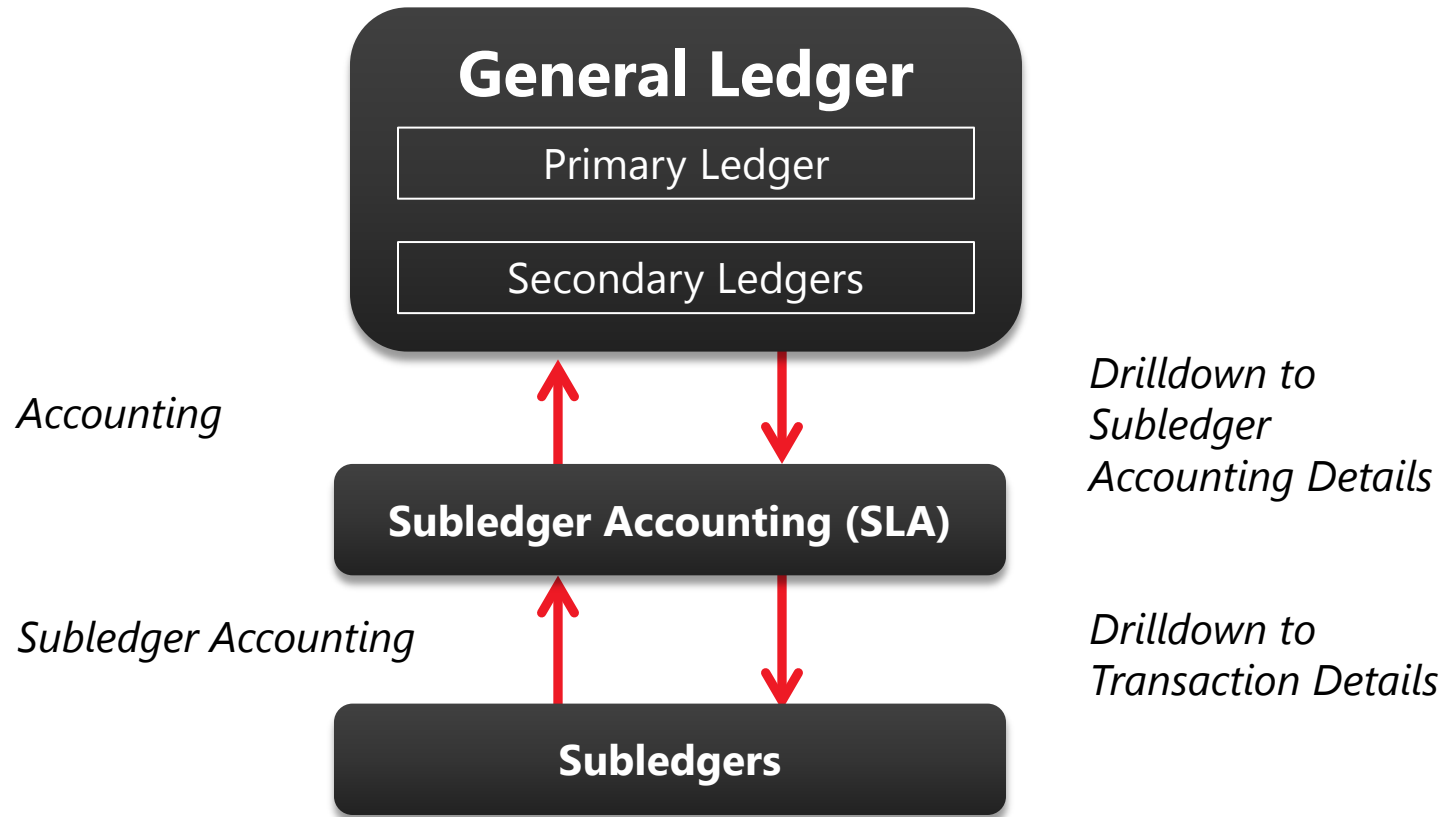
Secondary Ledgers – Adjustments Only Secondary Ledgers

🐘 Balance Level Secondary Ledger

🐘 Journal Level Secondary Ledger

🐘 Subledger Level Secondary Ledger

🐘 Adjustments Only Secondary Ledgers

- Adjustment only secondary ledgers do not maintain a complete accounting picture but instead only reflect adjustments
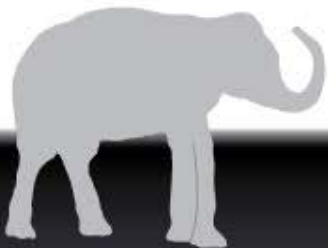
Secondary Ledgers – Adjustments Only Secondary Ledgers

An alternative to the Journal Level Secondary Ledger for audit sensitive adjustments to the Primary Ledger

- Adjustments Only Secondary Ledgers
  - Adjustment only secondary ledgers do not maintain a complete accounting picture but instead only reflect adjustments
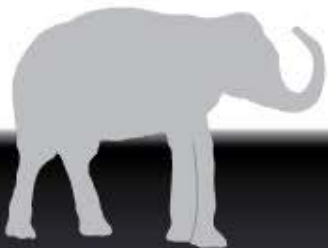
Secondary Ledgers
Deferred Revenue Example

A company books its sales as invoiced in the Accounts Receivable subledger. However, under GAAP rules, if the company had a service commitment for a period extending beyond the close of the reporting period, then an entry would have been made to defer part of the revenue or to reverse previously deferred revenue as income.
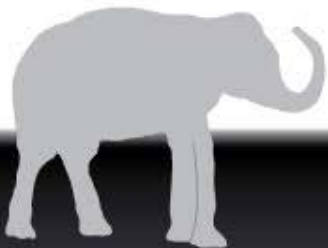
Secondary Ledgers
Deferred Revenue Example

JE #1		
Sales	120,000	
	Deferred Revenue	120,000

Adjustments-Only Secondary Ledger	
Deferred Revenue	120,000
Retained Earnings	120,000
Sales	(120,000)

Secondary Ledgers

Deferred Revenue Example

Account	Primary Ledger	Secondary Ledger		Combined
Cash	200,000			200,000
Accounts Receivable	400,000			400,000
Accounts Payable	300,000			300,000
Deferred Revenue		120,000		120,000
Retained Earnings	150,000	(120,000)		30,000
Stock and Other equity	150,000			150,000
Sales	350,000	(120,000)		230,000
Expenses	200,000			200,000
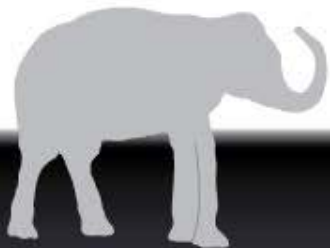
Objective 3:

Calculate the cost savings from using secondary ledgers to replace reporting spreadsheets.

Calculate the Cost Savings from Using Secondary Ledgers

- **Step 1:** List the spreadsheets being used to affect regulatory or compliance reporting.

- **Step 2:** Identify the spreadsheets that could be replaced with secondary ledgers.

- **Step 3:** Determine the approximate hours of time staff spends on each spreadsheet.

- **Step 4:** Multiply the approximate hours spent by staff on the spreadsheets by the average staff cost per hour.

- **Step 5:** Take approximately 75% of that cost (assuming approximately 25% of the time is review and approval).

Chart of Accounts Considerations

🐘 Two ways to handle local/regulatory requirements

- Separate Segment

  - Each country can use a range of values for their statutory requirements

Analysis Segment Ranges		Values	Descriptions
000000-001000	France	000321	Crédit Agricole Bank Account
		000544	Droits D'enregistrement Tax
001001-002000	Italy	001321	Intesa Sanpaolo Bank Account
002001-003000	UK	002321	Barclays Bank Account
		002584	VAT Tax

- Secondary Ledger
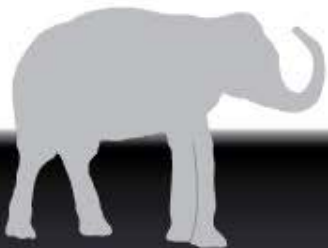
Example of Silos in the Enterprise

Instance	A	B	C	D	Distinct
Release	11.5.10.2	11.5.10	11.5.10.2	11.5.9	-
Size (GB)	1,425	548	61	96	-
Languages	4	2	1	1	**4**
Sets of Books	104	48	1	30	**183**
Calendars	10	7	1	1	**19**
Charts of Accounts	40	43	1	18	**102**
Legal Entities	120	48	0	47	**215**
Operating Units	121	49	0	47	**217**
Inv Orgs	137	50	1	48	**236**
Modules Installed	9	17	4	5	**21**
Security Rules on Value Set	13,012	300	15	153	**13,480**
Security Rules X Responsibilities	17,350	445	6	75	**17,876**
Cross Validation Rules	86,845	39,925	25	165	**126,960**
Currencies	56	28	1	28	**64**
EBS Users	43,986	30,494	247	3,023	**N/A**

Example of Silos in the Enterprise

Instance	A	B	C	D	Distinct
Release	11.5.10.2	11.5.10	11.5.10.2	11.5.9	-
Size (GB)	1,425	548	61	96	-
	4	2	1	1	4
Sets of Books	104	48	1	30	183
Calendars	10	7	1	1	19
Charts of Accounts	40	43	1	18	102
Legal Entities	120	48	0	47	215
		49	0	47	217
Modules Installed	9	17	4	5	21
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Security Rules X Responsibilities	17,350	445	6	75	17,876
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Currencies	56	28	1	28	64
EBS Users	43,986	30,494	247	3,023	N/A

Charts of Accounts:
Disparate and misaligned

Redundant Objects

**Charts of Accounts –** Reports and data extracts must be done 40 times

Conclusion

🐘 For the effective use of ledger sets and secondary ledgers, you need a *well-designed* and *rationalized* common chart of accounts in your primary ledgers.

🐘 If your chart of accounts does not suit your business or is inconsistent between primary ledgers, then the functionality of secondary ledgers will be limited and the use of ledger sets to streamline financial reporting workflows will be impaired.

Ledger Sets

Common Chart of Accounts and Standard Calendar

Secondary Ledgers
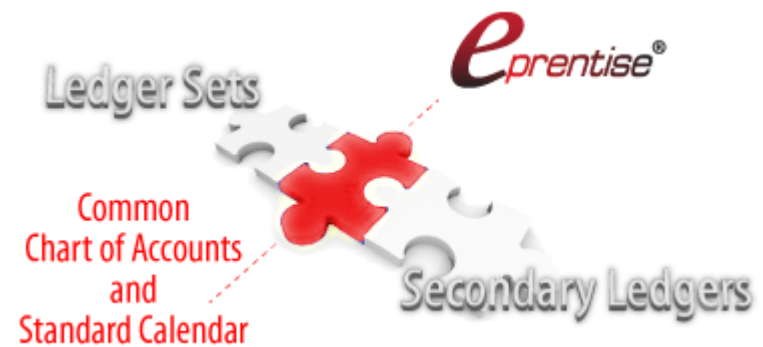
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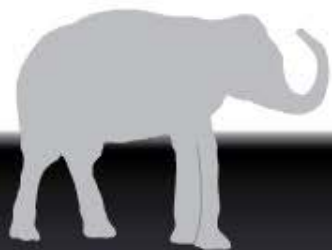
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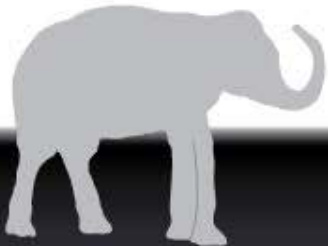
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Thank You!

Brian Lewis, CPA

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Answers from this session will be posted within two weeks on our new LinkedIn Group, EBS Answers: http://www.linkedin.com/groups/EBS-Answers-4683349/about

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